

# Current Account Sustainability in the Democratic Republic of Congo: Structural Imbalances, External Vulnerability and Policy Adjustment Mechanisms

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**Abstract:** This paper provides a comprehensive analysis of current account sustainability in the Democratic Republic of Congo (DRC), focusing on the structural determinants of persistent external imbalances and the policy mechanisms required for sustainable adjustment. Drawing on both theoretical and empirical frameworks, the study demonstrates that the DRC's current account deficit is predominantly structural, rooted in weak economic diversification, chronic service deficits, and significant primary income outflows linked to foreign-owned extractive industries. Using a mixed methodological approach, including descriptive analysis and econometric modeling, the findings reveal that external imbalances are closely tied to domestic structural constraints and limited absorptive capacity. The paper argues that sustainable adjustment requires not only macroeconomic stabilization but also deep structural transformation, including industrial diversification, financial development, and improved allocation of foreign direct investment (FDI). The study contributes to the broader literature on current account sustainability in resource-dependent economies and offers policy recommendations tailored to the Congolese context.

**Keywords:** Current Account Sustainability; External Imbalances; Structural Deficit; Economic Diversification; Absorptive Capacity; Foreign Direct Investment (FDI); Resource-Dependent Economies; Balance of Payments Adjustment; Financial Development; Democratic Republic of Congo.

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## I. INTRODUCTION

Over the past decades, globalization has intensified the interdependence of national economies, reshaping the structure of international economic relations. Trade liberalization, financial integration, and technological advancements have facilitated unprecedented flows of goods, services, capital, and labor across borders. While these developments have created new opportunities for growth, they have also increased exposure to external shocks, particularly for developing economies with narrow production bases.

In this global context, the current account has emerged as a central indicator of macroeconomic stability and external sustainability. It reflects the balance between national saving and investment and provides insight into a country's reliance on external financing. Persistent imbalances in the current account can signal underlying structural weaknesses and increase vulnerability to financial crises.

For the Democratic Republic of Congo, a resource-rich but structurally constrained economy, the issue of current account sustainability is particularly critical. Despite significant natural resource endowments—especially in copper and cobalt—the country continues to experience recurrent current account deficits. These deficits raise important questions regarding the sustainability of external financing and the effectiveness of existing adjustment mechanisms.

- This paper seeks to address the following core questions:
  - ✓ What are the structural determinants of the DRC's current account deficit?
  - ✓ To what extent is this deficit sustainable?
  - ✓ What policy mechanisms can ensure long-term external stability?

## II. THEORETICAL FOUNDATIONS OF CURRENT ACCOUNT SUSTAINABILITY

### ➤ *The Current Account as a Macroeconomic Identity*

At its core, the current account reflects a fundamental macroeconomic identity:

$$CA = S - I$$

This identity implies that a country with a current account deficit is investing more than it saves domestically and must therefore rely on foreign capital. Conversely, a surplus indicates excess saving and net lending to the rest of the world.

However, this accounting identity must be interpreted within a broader economic framework. The current account is not merely a statistical construct; it represents the outcome of intertemporal decisions made by households, firms, and governments.

### ➤ *The Intertemporal Approach*

The intertemporal approach, developed notably by Obstfeld and Rogoff, conceptualizes the current account as the result of forward-looking optimization behavior. In this framework, countries borrow internationally to smooth consumption over time, particularly in response to temporary shocks.

### ➤ *A Deficit is therefore Sustainable if:*

- It finances productive investment,
- Future output growth is sufficient to repay external obligations.

Conversely, deficits driven by consumption or inefficient investment are more likely to be unsustainable.

### ➤ *Structural vs. Cyclical Imbalances*

- A key analytical distinction must be made between:
- Cyclical imbalances, driven by temporary shocks (e.g., commodity price fluctuations),
- Structural imbalances, resulting from persistent economic weaknesses.
- Structural deficits are particularly concerning, as they reflect deep-rooted inefficiencies such as:

- ✓ Lack of diversification,
- ✓ Weak domestic production capacity,
- ✓ Institutional constraints.

### ➤ *Financing Structure and External Vulnerability*

The sustainability of the current account depends critically on how deficits are financed. Stable financing sources—such as long-term FDI—are generally less risky than volatile short-term capital flows.

Moreover, the composition of external liabilities matters. Economies heavily reliant on external debt or portfolio flows are more vulnerable to sudden stops and capital flight.

## III. EMPIRICAL CONTEXT: THE DRC'S EXTERNAL POSITION

### ➤ *Structural Features of the Congolese Economy*

- The DRC's economy is characterized by:
  - ✓ Heavy dependence on extractive industries,
  - ✓ Limited industrial base,
  - ✓ Weak domestic value addition,
  - ✓ High import dependence.

This structural configuration creates a persistent mismatch between export revenues and import need.

### ➤ *Trade and Export Concentration*

Exports are dominated by a narrow range of commodities, particularly copper and cobalt. While these sectors generate substantial foreign exchange, they are highly volatile and subject to global price fluctuations.

At the same time, the country imports a wide range of goods, including capital equipment, intermediate goods, and consumer products. This leads to structural trade imbalances. As illustrated in Figure 1, the share of copper and cobalt in total exports increased progressively from about 80% in 1990 to nearly 93% in 2023, despite temporary declines during periods of economic and political shocks.

The upward trend reflects the growing concentration of the Congolese export sector around mining activities, particularly following mining sector liberalization and the expansion of foreign direct investment in the 2000s. While this specialization has generated substantial export revenues, it has also reinforced the economy's vulnerability to external commodity price fluctuations and limited the development of diversified productive capacities.

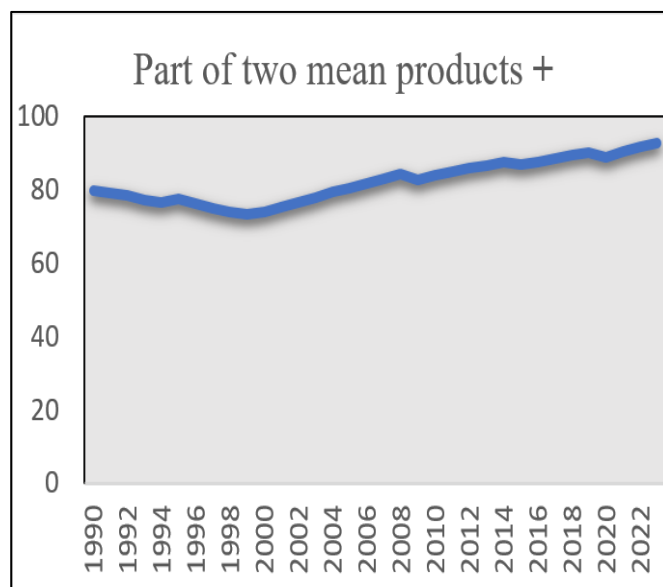


Fig 1 Part of Two Mean Products

Source: Author calculations

+: Two mean products are copper and cobalt

➤ *Services and Income Accounts*

The services account is structurally negative due to:

- Reliance on foreign service providers,
- Underdevelopment of domestic service industries.

Additionally, primary income outflows are significant, reflecting profit repatriation by multinational corporations operating in the extractive sector. As shown in Figure 2, primary income outflows as a percentage of GDP followed a persistent upward trend between 1990 and 2023, increasing from slightly above 2% of GDP in the early 1990s to more than 13% by 2023.

The evolution of these outflows reflects the increasing dominance of foreign-owned mining companies following the liberalization of the extractive sector and the expansion of foreign direct investment. Although temporary declines are observable during periods of external shocks—particularly the 2009 global financial crisis, the 2015 commodity price downturn, and the COVID-19 pandemic in 2020—the general trend remains strongly upward.

This dynamic highlights a structural feature of the Congolese economy: while extractive exports generate substantial foreign exchange earnings, a considerable share of these revenues is repatriated abroad through dividends, reinvested earnings, and investment income payments, thereby exerting persistent pressure on the current account balance.

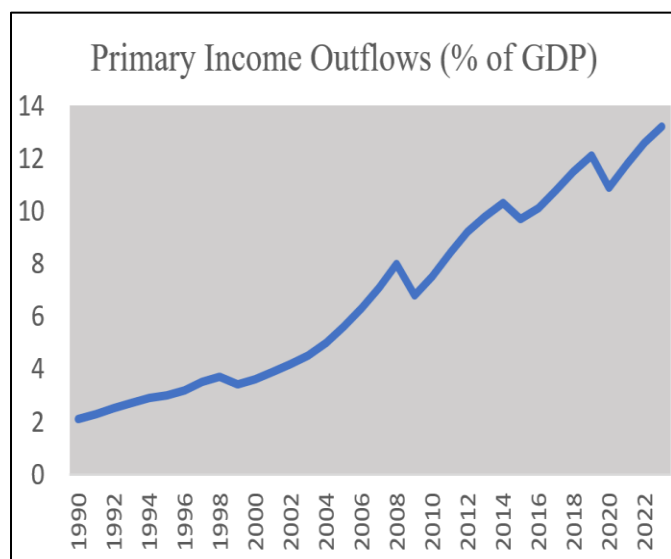


Fig 2 Primary Income Outflows (% of GDP)

Source: Author Calculations

➤ *Domestic Savings and Investment Gap*

Low domestic savings limit the country's ability to finance investment internally. As a result, the DRC relies heavily on external capital inflows, which may not always be stable or efficiently allocated.

#### IV. METHODOLOGY

The study employs a mixed methodological approach combining theoretical analysis with empirical investigation.

➤ *Data Sources*

- Data are drawn from:
- Central Bank of Congo
- IMF (IFS, WEO)
- World Bank (WDI)
- UNCTAD

➤ *Econometric Framework*

An ARDL (Autoregressive Distributed Lag) model is used to estimate both short-term and long-term relationships between the current account and its determinants.

Cointegration tests are conducted to assess long-run equilibrium relationships, while stationarity tests ensure the robustness of the model.

➤ *Analytical Strategy*

The analysis integrates:

- Descriptive statistics,
- Time-series analysis,
- Econometric modeling.

This approach allows for a comprehensive understanding of both structural dynamics and causal relationships.

#### V. RESULTS AND ANALYSIS

➤ *Evidence of Structural Deficit*

The empirical results confirm that the DRC's current account deficit is structural rather than cyclical. Three main factors explain this persistent imbalance.

First, the services account remains structurally negative due to the country's strong dependence on foreign service providers and the weak development of domestic service industries. The extractive sector relies heavily on imported technical, transport, insurance, and financial services, generating continuous external payments.

Second, primary income outflows significantly deteriorate the current account. The results show that foreign direct investment (FDI) has a negative and significant long-run effect on the current account, reflecting the concentration of FDI in the extractive sector and the large repatriation of profits, dividends, and other investment revenues abroad. Periods of strong FDI inflows have generally coincided with deeper current account deficits.

Third, export diversification remains weak. The economy depends heavily on a narrow range of commodities, mainly copper and cobalt, making external balances highly vulnerable to commodity price fluctuations. Moreover, gains

from favorable terms of trade tend to increase imports and domestic absorption faster than productive capacity.

Overall, these findings indicate that the DRC’s external imbalance is rooted in structural factors, including dependence on extractive industries, limited productive diversification, and high external income leakages.

➤ *Limited Impact of FDI on Sustainability*

Although FDI inflows are significant in the DRC, their contribution to long-term current account sustainability remains limited. Empirical results show that FDI exerts a negative and statistically significant effect on the current account balance in the long run, suggesting that external capital inflows have not generated sufficient structural transformation of the economy.

Fig 3 illustrates the inverse relationship between FDI inflows and the current account balance in the DRC.

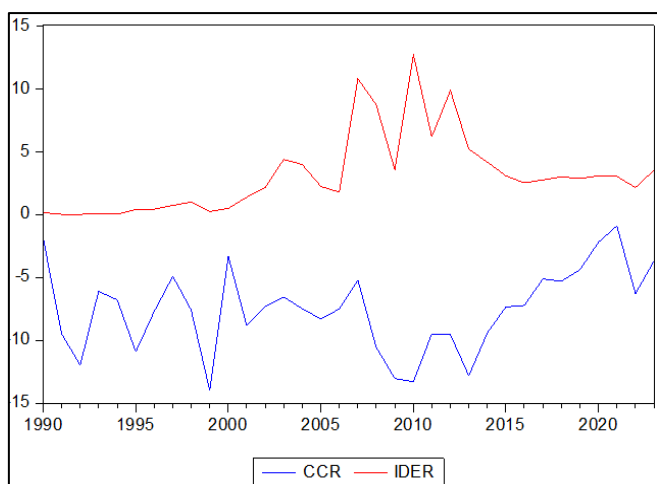


Fig 3 Temporal Profile of FDI and Current Account Balance Malata and Muya (2025)

One major reason is the concentration of FDI in the extractive sector, particularly mining activities related to copper and cobalt. This sector is highly dependent on imported machinery, intermediate goods, and foreign technical services, limiting the development of domestic productive capacities and local value addition.

In addition, linkages between foreign firms and the domestic economy remain weak. The limited integration of local suppliers, low technology transfer, and insufficient industrial spillovers reduce the ability of FDI to stimulate diversification, employment creation, and export competitiveness. As a result, FDI inflows do not significantly strengthen the country’s long-term external position.

Finally, high profit repatriation rates substantially weaken the sustainability gains associated with FDI. A large share of revenues generated by foreign investments is transferred abroad through profits, dividends, interest payments, and depreciation mechanisms. The short-run ARDL results further indicate that the negative effects of FDI become

significant one to two years after inflows, reflecting rapid externalization of investment revenues.

Overall, these findings suggest that FDI in the DRC functions more as a source of external financing with limited domestic absorption than as a driver of sustainable structural transformation and external balance improvement.

➤ *Limited Impact of FDI on Sustainability*

The DRC economy remains highly vulnerable to external shocks due to its strong dependence on a narrow range of commodity exports, particularly copper and cobalt. As a result, fluctuations in international commodity prices directly affect export revenues, foreign exchange reserves, fiscal revenues, and the current account balance.

The economy is also exposed to changes in global demand conditions. A slowdown in major trading partners, especially in industrial economies and large commodity-consuming countries, reduces external demand for mineral exports and weakens foreign exchange earnings. This dependence increases the sensitivity of the current account to external economic cycles.

In addition, changes in international financial conditions represent another major source of vulnerability. Tighter global financial conditions, rising international interest rates, or declining investor confidence can reduce capital inflows and increase external financing constraints. Given the DRC’s reliance on foreign capital and external financing, such shocks can rapidly worsen external imbalances and macroeconomic stability.

➤ *Weak Transmission Mechanisms*

The analysis reveals weak transmission mechanisms between external inflows and domestic economic development. Although the DRC receives substantial external resources through exports and FDI inflows, these resources are not effectively transformed into productive capacity and sustainable structural change.

This weak transmission reflects several structural constraints, including limited industrial integration, low domestic value addition, insufficient infrastructure, and weak linkages between foreign firms and local production systems. As a result, external inflows generate limited spillover effects on productivity, employment, technological upgrading, and export diversification.

Moreover, a significant share of external revenues leaks abroad through imports of intermediate goods, foreign services, and profit repatriation. Consequently, the capacity of external inflows to strengthen domestic savings, support productive investment, and improve long-term current account sustainability remains limited.

## VI. ADJUSTMENT MECHANISMS

### ➤ *Macroeconomic Adjustment*

In the short run, restoring external balance requires the implementation of sound macroeconomic adjustment policies. Key policy tools include exchange rate flexibility, fiscal discipline, and monetary stabilization.

Exchange rate flexibility can help absorb external shocks by improving external competitiveness and facilitating balance-of-payments adjustment. Fiscal discipline is equally important to limit excessive domestic absorption and reduce pressures on imports and external financing needs. In this regard, prudent fiscal policies should aim at limiting procyclical spending during commodity booms while prioritizing productive public investment. Monetary stabilization, through credible monetary policy and inflation control, also contributes to external stability by preserving macroeconomic confidence and limiting exchange rate volatility.

However, although these measures may help restore short-term equilibrium, they remain insufficient to ensure long-term current account sustainability. Structural weaknesses continue to constrain the economy's productive capacity and external resilience.

### ➤ *Structural Transformation*

Long-term adjustment requires a deep structural transformation of the economy. This process involves diversifying exports, developing manufacturing activities, and strengthening the domestic services sector.

Reducing dependence on copper and cobalt exports is essential to decrease vulnerability to commodity price shocks. Export diversification toward agriculture, agro-processing, light manufacturing, and higher value-added activities would help generate more stable and diversified foreign exchange earnings.

At the same time, the development of manufacturing industries could improve domestic value addition, create employment opportunities, and reduce import dependence. Strengthening domestic services such as transport, finance, insurance, logistics, and engineering services would also help reduce persistent service account deficits and improve the integration of the local economy into productive sectors.

### ➤ *Financial Sector Development*

Financial sector development represents another key adjustment mechanism for improving external sustainability. A deeper and more efficient financial system can mobilize domestic savings, improve capital allocation, and reduce excessive dependence on external financing.

In particular, strengthening banking intermediation and developing domestic financial markets would facilitate the financing of productive investment through internal resources rather than external borrowing. The establishment of a structured domestic public securities market could also contribute to channeling national savings toward long-term

investment while strengthening financial depth and macroeconomic stability.

Improved access to finance for firms, especially small and medium-sized enterprises, would support productive diversification and enhance the domestic economy's capacity to generate sustainable export revenues.

### ➤ *Human Capital and Institutional Reforms*

Sustainable external adjustment also depends on improvements in human capital and institutional quality. Investments in education, vocational training, governance, and institutional effectiveness are essential for increasing productivity and strengthening economic resilience.

A more skilled labor force would improve the economy's absorptive capacity, facilitate technology transfer, and support the development of more sophisticated productive sectors. At the institutional level, stronger governance, improved public financial management, and greater regulatory transparency would enhance investor confidence and increase the effectiveness of public policies.

Institutional reforms are equally necessary to improve the management of natural resource revenues and ensure that external inflows are transformed into productive investment capable of supporting long-term development and current account sustainability.

## VII. POLICY IMPLICATIONS

The findings of this study suggest that current account sustainability in the DRC cannot be achieved through macroeconomic adjustment policies alone. While exchange rate flexibility, fiscal discipline, and monetary stabilization may help correct short-term imbalances, they do not address the structural sources of external vulnerability.

Achieving sustainable external balance therefore requires a comprehensive development strategy centered on structural transformation and productive diversification. In particular, structural reforms should aim at strengthening domestic productive capacity, reducing dependence on commodity exports, and improving the economy's resilience to external shocks.

Industrial policy should play a central role in promoting manufacturing activities, agro-processing industries, and higher value-added sectors capable of generating diversified export revenues and reducing import dependence. Greater emphasis should also be placed on developing domestic linkages around the mining sector in order to increase local value addition and strengthen spillover effects on the broader economy.

Improved governance and stronger institutions are equally essential. Enhancing transparency, public financial management, regulatory quality, and the management of natural resource revenues would improve the efficiency of public investment and reinforce investor confidence. Institutional reforms are also necessary to ensure that external

inflows are effectively transformed into productive investment rather than generating persistent external leakages.

Finally, better integration into global value chains represents an important channel for improving external sustainability. By increasing participation in regional and international production networks, the DRC could diversify its exports, strengthen technological learning, and improve its capacity to generate stable foreign exchange earnings. Such integration would also support employment creation and long-term productivity growth, thereby reinforcing the sustainability of the current account position.

## VIII. DISCUSSION

The case of the DRC reflects a broader challenge commonly faced by resource-dependent economies: persistent external imbalances are often symptoms of deeper structural weaknesses rather than temporary macroeconomic disequilibria.

In the DRC, the structural nature of the current account deficit is closely linked to the concentration of exports in the extractive sector, weak productive diversification, limited domestic value addition, and significant external income leakages through imports and profit repatriation. Although periods of high commodity prices or large capital inflows may temporarily improve external financing conditions, they do not fundamentally transform the productive structure of the economy.

The findings also suggest that foreign direct investment, when concentrated in enclave-type extractive activities with weak domestic linkages, may contribute less to sustainable development than generally expected. In such contexts, external capital inflows can coexist with persistent current account deficits and increasing vulnerability to external shocks.

Therefore, policies aimed at correcting the current account deficit should not focus exclusively on short-term macroeconomic stabilization measures. While fiscal adjustment, monetary stabilization, and exchange rate flexibility remain important, sustainable external balance ultimately depends on deeper structural transformation. This includes strengthening productive capacity, promoting industrialization, improving institutional quality, and increasing the domestic absorption of external resources through stronger economic linkages and higher local value addition.

## IX. CONCLUSION

This paper demonstrates that the current account deficit in the DRC is fundamentally structural rather than cyclical. The persistence of external imbalances is mainly explained by the concentration of exports in the extractive sector, weak productive diversification, persistent service deficits, and significant primary income outflows associated with the structure of the economy.

The findings show that the issue is not foreign direct investment itself, but rather the sectoral concentration and characteristics of FDI inflows. In the DRC, FDI is largely directed toward capital-intensive extractive industries that require substantial imports of machinery, intermediate goods, and foreign technical expertise. These sectors also generate significant outflows through profits, dividends, interests, and payments for foreign services, thereby contributing to the deterioration of the primary income and services accounts.

As a result, external inflows are only weakly transformed into domestic productive capacity, technological diffusion, and broad-based industrial development. The limited integration between extractive activities and the rest of the economy reduces the potential spillover effects of external capital inflows on employment, productivity, and export diversification.

The study therefore suggests that current account sustainability cannot rely solely on short-term macroeconomic adjustment measures. Sustainable external balance depends on deeper structural transformation, including greater economic diversification, improved mobilization of domestic savings, more efficient allocation of external resources, and coherent macroeconomic policies supporting long-term productive development.

Strengthening domestic capacities, promoting local value addition, improving governance, and developing stronger linkages between the extractive sector and the domestic economy are essential for reducing external vulnerability and achieving durable current account sustainability in the DRC.

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